

No. 8: Poland August 1995

<H.cover>Using the Program Budget Model as a Tool for Local Development: Reforms in Lublin and Krakow, Poland

<t.cover>The Polish local government reforms of 1990 officially transferred municipal budgetary decision-making power from the central to the local level of government. Some Polish municipalities have since used the Program Budget Model as a tool in reforming their budgeting techniques and increasing the power of their budget processes. A *program budget* combines financial and programmatic information in the context of city council policies and priorities and gives officials and citizens useful information about the results their expected budget expenditures should achieve. The following monograph illustrates how two Polish cities, Krakow and Lublin, have used the program budget model to increase the efficiency and effectiveness of municipal planning, management, communication, and service delivery. Other municipalities seeking to transform their budgets into powerful program and management tools may learn from the experiences of these two cities.

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Founded in 1914, the International City/County Management Association (ICMA) is a non-profit professional association committed to enhancing the quality and performance of local government administration throughout the U.S. and internationally. ICMA has over 8,000 members worldwide, including top appointed administrators, elected officials, members of the academic community, and other professionals who share the goal of improving local government.

The mission of ICMA's International Municipal Programs is to support and strengthen local government institutions in developing countries and emerging democracies. With the financial support of the U.S. Agency for International Development's Office of Environment and Urban Programs, ICMA is engaged in a wide range of technical assistance activities in Central and Eastern Europe, the New Independent States (NIS), Latin America, Asia, and Africa. ICMA provides an array of services, training programs, and authoritative publications on virtually every aspect of municipal government, management, and finance.

In 1993, the U.S. Agency for International Development (USAID) asked ICMA to carry out a Local Government Assistance Program in Poland. The goal of the program is to encourage and support efforts to devolve responsibility, authority, and management of resources to local governments in Poland. To date, ICMA has managed over twenty local government projects in Poland. ICMA's most recent projects have focused on municipal finance and budget practices. Specifically, ICMA has worked closely with the finance and budget staffs in Krakow and Lublin to introduce performance budgeting and generally improve budget management practices.

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<h.page1>Using the Program Budget Model as a Tool for Local Development: Reforms in Lublin and Krakow, Poland

<t1.intro>This report is based on work carried out in Krakow by resident advisor Jan Winters and in Lublin by Kurt Thurmaier and other consultants. ICMA is grateful to the finance and budget staff members and mayors of Krakow and Lublin for their support of this project and hard work in implementing budgeting changes in their cities. It is hoped that their experience will serve as a model for other cities in Poland as they work to reform their budget management practices.

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<ha>Budgeting for New Responsibilities

<t1>Polish local government reform has resulted in new fiscal powers and administrative responsibilities for local governments. The previous system of state socialism deprived local governments of discretion in spending, and the local budget was not required to be a decision-making tool. The administrative and fiscal decentralization process that began in 1990 has given local governments the opportunity to forge their own destinies by making budget decisions that increase the efficiency and effectiveness of their departments and enterprise operations.

<t>Some Polish municipalities are using the Program Budget Model to reform their budgeting techniques and increase the power of their budget process. These reforms are transforming the budget process and budget document into important governing tools that:

<tb1>define program priorities,

<tb>promote good management practices,

<tb>ensure financial accountability, and

<tb2>communicate the community's financial plan to citizens, creditors, and other levels of government.

<t>The municipalities, which include Lublin and Krakow, are attracted to the Program Budget Model because they recognize that effective local self-government is fundamental to rebuilding an effective democracy in Poland. Local governments provide the "everyday" services that citizens require to lead normal lives—including garbage collection, well-maintained roads and public transportation, and clean water. Many of these services were not efficiently or effectively managed in the previous system, causing citizens to become frustrated and then alienated from

local governments that were not acting to improve their daily lives. Citizens also were deprived of ways to express their dissatisfaction, including fair and competitive elections.

<t>Under the system of local democracy established in 1990, citizens have been free to replace city councils and city administrations that do not satisfy their demands for an improved quality of life. The new local self-governments can avoid rapid turnovers in city councils due to citizen dissatisfaction by ending wasteful and ineffective management of basic local services and by systematically discussing municipal priorities and programs with citizens. The Program Budget Model gives municipalities a powerful tool to clarify priorities and illuminate the consequences of their budget decisions.

<t>This monograph is written for local governments that want to use their budget and budget process as a program tool for defining city policies and priorities, and as a management tool for providing residents with the services they desire through effective use of city resources. The monograph discusses the Program Budget Model, which uses a comprehensive process to produce a budget that fulfills the multiple purposes of public budgeting. A *program budget* combines financial and programmatic information in the context of city council policies and priorities and gives officials and citizens useful information about the results their budget expenditures will actually achieve.

<t>Currently, budgeting in a typical local self-government is rooted in a tradition of controlling and accounting for expenditures and revenues, mainly to the central government. The program budgeting approach can transform the local budget from a simple accounting ledger into a tool for promoting effective management of city resources while retaining financial accountability. In short, the goal of a program budget is to relate an expenditure to *what* it will accomplish, *who* will do it, and *how* it will be done. The results of the program budgeting approach are a budget process and a document that help decision-makers more clearly understand their alternatives and the consequences of their decisions.

<t>There are many ways to develop local government budgets, and this monograph highlights the approach adopted by Krakow and Lublin—the Program Budget Model. Although these cities have taken rather different paths to budget reform, their approaches have both been based on the Program Budget Model. The goal of this monograph is to present the Program Budget Model, distinguish it from current practice in most Polish municipalities, and show how Lublin and Krakow have reformed their budget processes and budget documents to implement a program budget.

<ha>A Process for Communicating Policies and Priorities

<t1>A local government budget is the product of the budget process that created it. The types of information used and the people who participate in the budget process shape the final budget product. An open process, rich in programmatic information, produces a budget document that communicates the budget policies and priorities of the city council and the financial plan for implementing those priorities. For example, it answers the questions:

<tb1>Which activities receive the most funding?

<tb>Which receive the least funding?

<tb2>How has funding of different activities changed over the last three years?

<t>City budget policies are the general principles that guide decisions regarding specific tasks financed in the comprehensive budget plan. Such policies establish whether capital investment or operating expenditures are more important for the next budget, and how much budget expenditures will grow relative to inflation. Budget policies also establish priorities among the many programs (and program tasks), such as whether the housing program is more important than the street sweeping program. Together, the budget policies provide the foundation upon which the city budget is developed and implemented.

<t>As presented in Figure 1, budgetary information in a program budget process flows in two directions: top-down (citizens to city council to mayor and executive board to treasurer to departments) and bottom-up (departments to treasurer to mayor and executive board to city council to citizens). The first step in the process is a dialogue with citizens, which the city council uses to set the general assumptions and guidelines for budget deliberations.

<cf>Figure 1 Program Budget Development Process

<ft>Bottom Up: Departments to Citizens

<ft>Top Down: Citizens to Departments

<ft>Monitor Budget Implementation and Performance

<ft>Citizens

<ft>Present Program Views & Budget Requests at City Council Budget Hearing

<ft>Approve Budget Plan

<ft>City Council and Budget Commission

<ft>Develop Program Priorities

<ft>Recommend Budget Plan

<ft>Mayor and Executive Board

<ft>Approve Budget Assumptions and Guidelines

<ft>Analyze Requests/Draft Budget Plan

<ft>City Treasurer and Budget Office Staff

<ft>Develop Budget Instructions

<ft>Submit Budget Requests

<ft>City Enterprises and City Departments

<ft>Develop Budget Requests

<hb>Citizen Dialogue

<hc>Program Budget Model

<t1>The program budget process encourages early communication among citizens, the city council, and city management. The budget process should produce a budget document with financial and management information that provides the city's citizens, mayor, executive board, and city council with accountability and performance criteria for departmental activities.

<t>The program budget development process shown in Figure 1 begins when the city council's budget commission conducts a public hearing to obtain citizens' program views and budget demands. If citizens are unhappy with current budget allocations, they can use the opportunity of an initial public hearing to present their criticisms and suggestions. The respect and popularity of a local government rests in part on citizens' perceptions of how well their needs are being met, and how effectively their taxes and fees are being spent. Citizens who understand how their money is spent may be more willing to pay additional taxes for needed services than citizens who are alienated from the budget development process. Public hearings may be especially helpful to the council when it is considering capital investment projects, which have high costs but also long-term, visible benefits to citizens.

<hc>Current Practice

<t1>The current budget process in Polish municipalities is mostly closed to participation by citizens and emphasizes expenditure control. Budget committees do not hold special hearings to obtain requests or opinions from citizens. Rather, budgeting is viewed as a mechanical process that serves the accounting function prescribed for it under the previous system of state socialism. This type of budgeting produces a document which accountants can understand but which citizens, city council members, or creditors may find difficult to comprehend.

<hc>Implementing Reform

<t1>Krakow and Lublin have not yet incorporated a formal budget hearing into their budget process, although citizens are free to express their opinions at the regularly scheduled citizen forum during any city council meeting. Krakow has experimented with an alternative way for municipalities to gauge citizen preferences: a citizen survey. Krakow found a high degree of

responsiveness when it used such a survey to ask residents about their priorities for service delivery. Approximately 3,000 of the 5,000 questionnaires were returned to the city, demonstrating citizens' interest and willingness to participate in the budget development process.

<t>While citizen surveys can provide valuable information as a basis for council policy decisions, they tend to be expensive both in terms of staff time and financial cost. Budget hearings, scheduled regularly at the beginning and end of the budget process, are much less expensive and give citizens a clear opportunity to express their views. Citizen input is an important starting point for establishing budget priorities in the program budget process.

<hb>Establishing Priorities

<hc>Program Budget Model

<t1>The program budget process encourages early policy formation. Budgets are based on policy as well as fiscal assumptions. Without new directives from the council, the mayor and department directors will develop the budget assuming that the existing proportional allocation of city resources across the multitude of city services will not change. For example, if 37 percent of the budget is for capital investments in 1993, about 37 percent will be reserved for this activity in 1994 unless the council directs otherwise. If councils wish to spend a greater share of their budgets on capital expenditures, then they must spend a smaller share on operating costs.

<t>City councils can affect the overall program tone of the budget, and specify changes that affect city programs, by discussing budget assumptions and guidelines at the beginning of the budget development cycle and providing the mayor with directives about how the budget should be developed. The council may support increased funding for housing in 1995 and less funding for street repairs. The council may wish to avoid property tax increases and prefer that departments identify user fees instead.

<t>Identifying the "most deserving" tasks out of the many important city services focuses the energies of the mayor, treasurer, budget staff, and departments as they develop the budget proposal for the council's approval. This saves departments from wasting valuable staff time developing budget requests that will not receive consideration because they are beyond the political or financial feasibility of the city budget. It also saves the time of the budget staff, treasurer, executive board, mayor and city council members who review the department budget requests because their reviews can focus on budget requests that conform to the guidelines in the budget instructions.

<t>When the budget proposed by the executive board returns to the council in October and November, the budget debate should focus mainly on whether the proposed budget meets the council's priorities. Changing financial and administrative circumstances—such as those caused by a change in national government and changes in estimated revenues—are more easily dealt with at this stage because the relative priority of different programs has been established; any increase or decrease in revenues can be applied according to these priorities. For example, if housing

development was the highest priority of the council, and if the general grant from the central government was expected to be lower than first estimated, then the council might be reluctant to reduce the housing budget and would look instead for reductions in other areas of the budget.

<hc>Current Practice

<t1>Commonly, the budget process in Polish municipalities begins in late September or October when the mayor or treasurer directs departments and enterprises to submit their budget requests. Although the mayor may have certain priorities for the next budget, and may sense that the city council has some priorities, there is no formal process for stating such policies or a forum for debating them until the budget proposed by the city board is submitted to the city council. Then the council begins debating priorities and whether there are funds to finance them.

<t>Difficult social and political choices arise, with funding constrained by the economic situation of the city and the national budget. Councils raise the degree of conflict inherent in budgeting when they postpone the debate on changing priorities and allocations until after the budget has been developed by departments, reviewed by the city board, and presented to the council for approval. However, when the mayor and treasurer can use the council's program resolution as the basis for budget instructions to city departments, subsequent budget discussions by the council can then focus on how well the mayor and city departments have conformed to the council's directives.

<hc>Implementing Reform

<t1>The city councils in Lublin and Krakow begin the budget process by debating city policies and priorities and directing that the budget be developed with these priorities in mind. In Lublin, the council made housing development the highest priority for the 1994 and 1995 budgets. But as seen in Figure 2, lesser priorities changed from 1994 to 1995. The second priority changed from road repairs to completing building projects for primary schools, as the council recognized the urgency of investment in this newly assumed task.

<t>In Krakow, the council agreed that the priorities for the 1994 budget included activities of the division of culture, youth services, and airport services. Capital investment priorities included the transportation network, housing, solid waste disposal, and the building and repair of schools. Because the city budget staff was able to use the early direction of the council in developing the budget, the usual adversarial meetings when the budget proposal was presented to the council were replaced with lengthy compliments about the process and the results. Even the political party in opposition to the city president supported the budget. Although this was an election year, the adopted budget included a 50 percent increase in public transportation and in water and sewer rates. Most surprisingly, it was adopted one month ahead of schedule and by a margin of 44 to 7!

<cf>Figure 2 Lublin Budget Priorities

<sha>Assumptions and Guidelines for the 1994 Budget of the City of Lublin

<st1>The priority tasks for the Lublin City Council in 1994 include:

<stn1>A comprehensive program of residential housing construction.

<stn>Repair and upgrading of the road system.

<stn>Development of culture in the city.

<stn2>Implementation of the pilot program (joint effort with the voivodship office).

<sha>Assumptions and Guidelines for the 1995 Budget of the City of Lublin

<st1>The assumptions for the social and economic plan comprise priority tasks of the Lublin City Council for 1995 and indicate the principal aims for its business and investment activities, while maintaining the continuity of the investment programs and execution of other projects undertaken by the previous Council, and in particular those undertaken in 1994.

<st>The following tasks are hereby declared by the City Council as priority activities for 1995.

<stn1>Completion of the municipal residential construction program approved in the 1994 budget. Demolition of the buildings posing a threat to the public due to their poor state of repair. Sale or perpetual usufruct of land acquired following the demolition and sale of residential buildings for rehabilitation.

<stn>Completion of primary school construction projects and repair and rehabilitation programs; supplying schools with the additional equipment required.

<stn>Increasing the scope of street and road repair, modernization and construction activities including those taken over from the Lublin *Voivod* and construction of roads in new residential developments, with the involvement of their residents in the completion of the infrastructure to support these roads.

<stn>Rehabilitation of the Old Town with a special emphasis on enhancing the infrastructure in this area and on cultural, social, and economic revitalization of this part of Lublin.

<stn2>Reduction of unemployment through close cooperation with local businesses experiencing difficulties, public works, offering tax reductions for entities creating new jobs, and comprehensive enterprise support.

<hb>Budget Leadership

<hc>Program Budget Model

<t1>Program budgeting depends on effective budget leadership. This requires the cooperation of the city council, its budget commission, the mayor, the treasurer, and the executive board. Each plays a leadership role at different stages of the budget development process portrayed in Figure

1. Overall responsibility for managing the budget development process resides with the mayor (*wojt, burmistrz, or prezydent*), who is the municipality's chief executive.

<t>The Program Budget Model increases the city treasurer's responsibility for budget analysis and demands close cooperation between the mayor and the treasurer. The mayor initially relies on the city treasurer and budget staff for two key steps in the process: a fiscal forecast and budget instructions. The fiscal forecast estimates available revenues and probable expenditures. The budget instructions detail the assumptions and guidelines departments must use to develop their budget requests.

<t>The mayor analyzes the fiscal forecast developed by the city treasurer and uses that (along with citizen input) to help the city council develop the budget policies and goals. Then the mayor works with the city treasurer and budget analysis staff to develop detailed budget instructions that will be issued by the city board to guide the development of expenditure requests for city department and city enterprise activities. The mayor has the knowledge of departmental activities necessary to recommend to the city board and council how available revenues can most effectively be allocated to achieve city priorities and objectives. In the same way, the mayor is well positioned to ensure that the departments implement the council's policies once the budget is adopted.

<t>Since the budget is only one of the mayor's responsibilities, the mayor delegates much of the technical responsibility for budget development and implementation to the treasurer and budget staff. The vice-mayors on the executive board can also assist departments in their budget development. The treasurer works with the mayor and executive board to develop budget instructions to the departments based on the general assumptions and guidelines for budget development established by the city council.

<hc>Current Practice

<t1>The mayors in Polish municipalities tend to have a major influence on the budget that is proposed to the city council. The bulk of the technical budget development rests with the city treasurer and his or her accounting staff. Generally, however, the scope of their work is limited to accounting tasks. There is usually no fiscal forecast to guide departments in their budget development, and the sparse budget instructions do not specify assumptions, policies, or priorities.

<hc>Implementing Reform

<t1>The Krakow mayor gave the chief vice-president primary responsibility for reforming the city's budget process. The vice-president worked closely with the treasurer and the budget staff to develop the new program budget methods. The mayor, perceiving that some department directors were resisting the reforms, made a strong statement of his unwavering support and informed all directors that the reform would be accomplished in the coming year.

<t>In Lublin, the mayor gave primary responsibility to the city treasurer, who proposed the budget instructions approved by the city board and issued to the departments. In both cities, the budget staff in the treasurer's office has been given increased responsibility for analyzing department requests, as discussed below.

<hb>Financial Forecasting

<hc>Program Budget Model

<t1>During the debate on priorities, the city council considers citizens' suggestions in the context of another set of key information: the initial revenue and expenditure forecast from the city treasurer. The first forecast is based on whatever information the budget staff can collect on inflation projections, increases or decreases in central grants and donations, and any central government proposals to change maximum allowable tax rates (e.g., for transport or property taxes). Although the forecast will need to be revised in the subsequent six months, it provides the council with initial financial parameters that define the expenditure boundaries for the next budget. Management of the forecasting information is easier when the treasurer designates a person on the budget staff to become the forecasting "expert," assigned to develop effective working relationships with the major employers in the municipality (whose employment and sales decisions will impact demands for city services and changes in city revenues), and with information sources in the central government (such as the Ministry of Finance and *Główny Urząd Statystyczny*).

<hc>Current Practice

<t1>Most Polish municipalities do not have a formal financial forecasting component to their budget process. They lack a central information manager for local financial information and do not have established contacts from which to obtain good economic information before it appears in newspapers or official bulletins. Budget staffs in city departments and enterprises often use contradictory and ambiguous assumptions for developing their budget requests.

<hc>Implementing Reform

<t1>Lublin has begun to include financial forecasting as an element of its budget process. The budget staff has received training in the kinds of data to be collected and how these data can be organized and analyzed to develop financial forecasts for budget development and implementation. The treasurer has begun to establish cooperative relationships with major local employers to gain valuable information on changes in the local economy. Forecasting is becoming an important foundation for the budget instructions.

<hb>Budget Instructions

<hc>Program Budget Model

<t1>The task of the city treasurer and budget staff is to translate the program priorities of the city council into specific budget instructions to be transmitted to the departments (as seen in Figure 1).

The budget instructions constrain the size and scope of the budget requests of the departments and guide them in their budget development. Budget instructions are essential tools for controlling the size of budget requests, and for influencing the types of budget requests. Budget instructions stipulate council priorities and encourage larger expenditures for one department and smaller expenditures for another. When overall city revenues are increasing, the instructions may indicate that priority programs should be allowed to grow faster than others. When city revenues are stable or decreasing, the instructions may indicate that low priority programs will need to be cut more than others of higher priority.

<t>The instructions require all departments to use cost assumptions based on the budget office's initial forecast for inflation, prices mandated by the central government for central heating or rent, and other, similar mandates regarding salary increases (e.g., for primary school teachers). This provides uniformity in the assumptions underlying budget requests. These assumptions can be changed unilaterally by the treasurer as new information becomes available, and the departmental allocations can be adjusted accordingly. The discipline that budget instructions bring to the development of departmental budget requests saves valuable staff time throughout the process by focusing efforts on budget requests that are financially feasible and that meet the priority considerations established by the council at the beginning of the process.

<t>Itemizing the specific budget decisions is a valuable way to show city council and city board members how each decision accrues to the total department budget. This type of format for requests should be stipulated in the budget instructions. It can be used by the budget staff, city manager, city board, and the city council budget committee in their reviews of the requests. The recommendation at each step of the review process can be added to the document's history so that ultimately the city council member can determine who recommended accepting, rejecting, or modifying a specific budget request.

<t>This supporting detail helps the budget reviewer understand the total budget for a department and what each expenditure can be expected to produce in the next budget year. The budget proposal given to the city council should show the department's request and the city mayor's and city board's recommendation on each departmental decision item. The city council can thus see how well the city manager and city board are enforcing council policies and priorities during the budget review process.

<hc>Current Practice

<t1>Current municipal budgeting practice uses very sparse budget instructions to guide departments in developing their budgets. The mayor may have a meeting with department directors and discuss issues which he or she senses are "council priorities," although there usually has not been any formal council resolution to that effect.

<t>The result is that the department budget requests submitted to the city treasurer are based on different inflation assumptions and different economic factors. There is no common format to help budget reviewers compare workloads and other information across different departments (or

within departments). Specific budget requests are supported with varying degrees of information, but such information is generally sparse. Aside from a uniform chart of accounts, the requests of different departments may have little in common, making it difficult for the municipal leaders to compare task efficiencies and effectiveness. Much of the background information is presented orally, and there is no recorded basis for decision-making.

<hc>Implementing Reform

<t1>Lublin established specific budget instructions to guide departments in the development of their 1995 budget requests. (See Thurmaier, July 1994, Appendix A.) These budget instructions:

<tb1>specified assumptions for inflation;

<tb>required departments to provide three years of revenue and expenditure information for each subaccount: 1993 actual, 1994 expected actual, and proposed 1995;

<tb>required departments to provide three years of head counts and full-time equivalents (*etat*) for each subaccount: 1993 actual, 1994 expected actual, and proposed 1995;

<tb>required expenditures to be divided into current, investment, and capital maintenance classifications;

<tb>provided a space for departments to provide narrative justification that the board and city council could use as a basis for decisions; and

<tb2>included a lengthened budget process calendar.

<ha>The Budget Staff as a Program and Management Tool

<hb after ha>Program Budget Model

<t1>The discussion of financial forecasting and budgeting instructions highlights the prominent role that the treasurer and city budget staff play in the program budget model. One of the most effective ways to use the budget document and process as a management and program tool is to reorient the role of the budget office. The treasurer and his/her staff become an important management instrument for the local government when the treasurer is responsible for:

<tb1>forecasting revenue and expenditure trends upon which the council must base its budget policies and priorities;

<tb>developing budget instructions that direct departments to develop their requests in accord with council policies and priorities;

<tb>reviewing departmental requests and recommending to the city manager and city board whether to accept, reject, or modify each request; and

<tb2>monitoring budget implementation to enforce budget constraints on departments.

<t>To perform these functions, the city treasurer needs a dependable and strategically placed budget staff that can:

<tb1>provide the treasurer and mayor with detailed and specific information about departmental activities;

<tb>serve as experts on city finances and statutory budgetary requirements; and

<tb2>analyze departmental budget requests in view of council priorities and the effectiveness of departmental activities.

<t>The treasurer needs to develop a budget staff that can act as budget and management analysts, capable of asking management questions and analyzing requests for compatibility with overall priorities and objectives established by the city council. A budget office staffed with accounting personnel is less likely to provide the same degree of management and program analysis than an office staffed with analysts who have a broader social science or management background. Financial accountability will always remain an important function of budget implementation, and the treasurer will require a separate accounting staff to provide that function. The program approach does not replace the accounting function; rather, it builds upon the accounting framework to provide information for more effective policy and management decisions.

<t>A successful program approach to budgeting requires that the budget staff discuss program needs with departments, transmit council and manager priorities to the departments, and review budget requests for conformance to budget policies and priorities. The treasurer can train the current budget staff to analyze the management and program implications of department budget requests or hire new staff to implement these functions.

<t>The reorientation and new mission of the budget office staff requires the full support of the mayor. The mayor must rely on this staff for much of the management and program analysis he/she needs because the task of analyzing all of the information is impossible for a single person (except in the smallest cities). Therefore, the budget staff's recommendations are very influential, and the appointment of this staff is a critically important task of the city treasurer.

<hb>Current Practice

<t1>The typical budget office in Polish local governments is a bureau within the treasurer's office, and it currently has a pronounced financial control orientation that stems from its accounting function in the budget process. The typical role of the budget staff in local self-governments is limited, first of all, by the limited role of the treasurer in the process. Since the treasurer acts mainly as the chief accountant in the typical municipality, the staff is also generally composed of accountants.

<t>The typical staff members are very well informed about the financial transactions regarding their assigned departments. Their duties are mainly to monitor revenues and expenditures throughout the fiscal year and to complete the reports required by central government ministries. Their participation in the budget process is generally limited to checking the accuracy of calculations in department budget requests and ensuring that funds are allocated according to the appropriate accounts, subaccounts, and paragraphs in the uniform chart of accounts. They effectively perform the financial control function of the budget but are not involved in management or program analysis. The head of the budget staff may have a limited role in advising the treasurer with regard to recommendations on individual budget requests, depending on how much influence the treasurer has in the process.

<hb>Implementing Reform

<t1>The Krakow and Lublin treasurers are taking a mixed approach to reforming the city budget staff. Krakow hired two new budget analysts specifically to learn about the new budget format and analyze department budgets on the basis of the policy and program orientation. The Lublin treasurer filled budget office vacancies with personnel who had stronger management backgrounds and who were eager to use the program budget approach to analyze budget requests by departments. Additionally, personnel retained in both cities are learning how to change the way they analyze and critique departmental budget requests.

<t>In each case, the budget staff has received strong support from the mayor's office. In Krakow, the vice-president responsible for budget reform worked closely with the budget staff to develop formats and implement other changes. The Lublin mayor publicly reiterated his support for the budget instructions assumptions and requirements at a meeting of all department heads. He also provided the treasurer with the flexibility she needed to experiment with the new budget request formats and with changes in hiring practices for budget staff.

<ha>Program Budget Analysis as a Management Tool

<hb after ha>Program Budget Model

<t1>A budget is a critical management tool for city departments and the city board because it authorizes department managers to conduct certain activities within specific expenditure and revenue limits. Requiring departments to include program and performance information with their budget requests makes the budget into an even stronger management tool because it directly links expenditures with activities. Simple narratives focus attention on program tasks, explaining what the department or bureau does and how. The narratives identify the program objectives for the next budget year and for the long term. The program activities are linked directly with the budget allocation for the department in a given budgetary account or subaccount.

<t>The uniform set of accounts mandated by the central government provides a solid foundation for a program budget format because it groups similar activities into a programmatic expenditure account. Consequently, expenditures within a given subaccount generally (but not always

completely) constitute the municipality's program expenditures for that particular activity. Working with this framework, municipalities can improve the management capacity of their budgets by listing the discrete activities—and their costs—in the proposed budget.

<hb>Current Practice

<t1>The typical municipal budget consists of a cover page with the budget resolution of the city council, summary pages of revenues and expenditures by two-digit account number, and then a listing of revenues and expenditures disaggregated to the four-digit subaccount level. The narrative is sparse and consists mainly of the descriptions for subaccount headings. There is little in the way of comparisons of proposed budget expenditures to current and past amounts, such as in a multi-year column format. The introductory paragraphs may describe overall revenue and expenditure changes relative to the expected current year totals. Much of the comparison information is provided in separate annual and semi-annual (first six months) budget reports.

<hb>Implementing Reform

<t1>Krakow has significantly reformed the budget document by presenting the budget in two parts. The first half of the budget document groups funds in different accounts together under one task description to enhance program and policy analysis. The second half fulfills the central government's legal requirements for budget reporting by presenting summary tables by account structure.

<t>In 1994, Krakow began using a program budget format that lists departmental activities by organizing city services into about 180 programs and subprograms. This gives the city board and council a new perspective on how much certain services cost. In 1995, Krakow included performance measures with budget presentations. Performance information collected by departments in 1994 was used to establish performance goals for the 1995 budget. As an example, the expenditure table and performance measures for basic primary schooling (grades 1-8) are presented in Table 1. Note that three different subaccounts pay for teachers, other personnel, and materials. The presentation helps budget reviewers grasp how funding from the different accounts is changing from 1994 to 1995.

<lh>Table 1. Krakow 1995 Budget, Primary School Program (Task 1)

| <l5>Activity | Account | Budget 1994 | Expected Actual 1994 | Budget 1995 |
|----------------------------------|---------|-------------|----------------------|-------------|
| <l5> Expenditure Summary | | | | |
| <l5>Number of Positions | | 6,183.2 | 6,250.1 | 6,250.1 |
| <l5>Total Task Cost (in 000s Zl) | 7911 | 522,865,453 | 597,412,303 | 638,683,100 |
| <l5>Personnel costs | 7911 | 421,693,245 | 493,229,034 | 557,810,000 |

| | | | | |
|---------------------|------|------------|------------|------------|
| <l5>Personnel costs | 7961 | 14,196,044 | 14,424,430 | 17,060,000 |
| <l5>Personnel costs | 9146 | 722,707 | 907,859 | 746,100 |
| <l5>Materials costs | 7911 | 78,435,970 | 84,975,316 | 61,380,000 |
| <l5>Materials costs | 7961 | 7,618,910 | 3,642,260 | 1,550,000 |
| <l5>Materials costs | 9146 | 198,577 | 233,404 | 140,000 |

<l5>Performance Measures

| | | | |
|--|-----|----------------|-----------|
| <l5>Number of Teachers in grades 1-8 | | approx. 80,000 | 80,193 |
| <l5>Number of hours of teaching | | 3,727,900 | 3,761,672 |
| <l5>Average teaching hours for one student | | 4.6 | 4.7 |
| <l5>Number of teaching hours per week | | 18 | 18 |
| <l5>Number of teacher positions | | 4978.5 | 5023.6 |
| <l5>Monthly cost of teaching one student | | 650 | 796.5 |
| <l5>Cost of one hour class | 150 | 170 | |

<t>The performance measures listed below the expenditure summary add further value to the budget by linking specific department activities with the expenditure allocation. This provides the council, citizens, and department managers with measures of unit costs and outputs for providing the service. The number of students being served in the schools, the number of teachers for primary schools, and the hours in classes are combined in different ratios to measure the unit costs of providing schooling to one student or one class. Comparison of workload activities across several years helps the council identify changing demands for education services. These measures also serve as a means for the council and city manager to identify opportunities for productivity increases by departments.

<t>As stated in the 1994 Krakow budget:

<q>Including all these things takes a lot of effort, but only thanks to this can one achieve comparisons of costs....And also, they enable one to analyze the relationship of outlays for a task to the material result. (The comparison of costs [includes] being able to analyze the relationship of outputs with actual results and the effects of a program.) This information is necessary for rational administration. We hope also that such established indicators, or indexes, as for example the cost of borrowing one book or the cost of publishing the traffic law, will better show us how and for what the money of the taxpayers is expended.

<t>From the perspective of those leading the budget reform in Krakow, performance indicators are more than just a burden of extra budget detail to be collected by departments: they provide managers and councilors—and citizens—with information about what is being achieved with city revenues.

<t>Lublin used the 1995 budget instructions to prompt departments to specify the decision components that led to specific funding requests for a budget subaccount. The treasurer's budget instructions also required narrative information and specified the formats departments would use to request budget allocations. The cooperation of the Lublin departments provided the budget staff with key information that was useful in analyzing budget requests from a management and program perspective, as well as for financial accountability.

<t>The 1995 Lublin Welfare Department budget request is a good example of how the program format illuminates (for the budget staff, mayor, executive board, and city council) the management and program issues inherent in budget decisions. A major expenditure in the social services account (86) is for social services administered by several non-profit organizations, including the Polish Red Cross (subaccount 8612). Two of the factors determining the payment to each organization are the estimated demand for services (the number of people) and the hourly reimbursement rate paid by the social services department to service providers.

<t>Table 2 presents a four-part analysis of the 1995 request for this activity that the Lublin budget analyst developed. This table was used as a discussion item when the budget staff briefed the city treasurer on its analysis of the welfare department's budget request for subaccount 8612, the subsidy to nonprofit organizations that deliver social services. During the briefing, the treasurer was able to ask focused questions about the demand and average rates.

<lh>Table 2. Decision Item Analysis, Lublin 1995 Budget, Subsidy for Social Services (Subaccount 8612)

| <l7>Organization | Persons | | | Days | Months | Hours | Rate (000s) | Total |
|------------------|---------|----|----|------|--------|-----------|-------------|-------|
| <l7>1994 Actual | | | | | | | | |
| <l7>PKPS | 250 | 30 | 12 | 2 | 23.0 | 4,140,000 | | |
| <l7>PCK | 433 | 30 | 12 | 2 | 24.0 | 7,482,240 | | |
| <l7>PULS | 115 | 30 | 12 | 2 | 21.6 | 1,788,480 | | |
| <l7>ZYCIE | 143 | 30 | 12 | 2 | 21.6 | 2,223,936 | | |
| <l7>EGIDA | 124 | 30 | 12 | 2 | 21.6 | 1,928,448 | | |
| <l7>Pielegniarka | 30 | 30 | 12 | 2 | 18.0 | 388,800 | | |

| | | | | | | |
|-----------|-------|-----|--|--|--|------------|
| <l7>TOTAL | 1,095 | 180 | | | | 17,951,904 |
|-----------|-------|-----|--|--|--|------------|

<l7>**1995 Departmental Request** (add Department's new demand and new rate)

| | | | | | | |
|------------------|-------|-----|----|---|------|------------|
| <l7>PKPS | 250 | 30 | 12 | 2 | 25.0 | 4,500,000 |
| <l7>PCK | 450 | 30 | 12 | 2 | 25.0 | 8,100,000 |
| <l7>PULS | 150 | 30 | 12 | 2 | 25.0 | 2,700,000 |
| <l7>ZYCIE | 150 | 30 | 12 | 2 | 25.0 | 2,700,000 |
| <l7>EGIDA | 150 | 30 | 12 | 2 | 25.0 | 2,700,000 |
| <l7>Pielegniarka | 50 | 30 | 12 | 2 | 25.0 | 900,000 |
| <l7>TOTAL | 1,200 | 180 | | | | 21,600,000 |

| | | | | | | |
|------------------------|--|--|--|--|--|-----------|
| <l7>Increase over 1994 | | | | | | 3,648,096 |
|------------------------|--|--|--|--|--|-----------|

<l7>**1995 Recommendation A** (add only demand)

| | | | | | | |
|------------------|-------|-----|----|---|------|------------|
| <l7>PKPS | 250 | 30 | 12 | 2 | 23.0 | 4,140,000 |
| <l7>PCK | 450 | 30 | 12 | 2 | 24.0 | 7,776,000 |
| <l7>PULS | 150 | 30 | 12 | 2 | 21.6 | 2,332,800 |
| <l7>ZYCIE | 150 | 30 | 12 | 2 | 21.6 | 2,332,800 |
| <l7>EGIDA | 150 | 30 | 12 | 2 | 21.6 | 2,332,800 |
| <l7>Pielegniarka | 50 | 30 | 12 | 2 | 18.0 | 648,000 |
| <l7>TOTAL | 1,200 | 180 | | | | 19,562,400 |

| | | | | | | |
|------------------------|--|--|--|--|--|-----------|
| <l7>Increase over 1994 | | | | | | 1,610,496 |
|------------------------|--|--|--|--|--|-----------|

<l7>**1995 Recommendation B** (add recommended new rate)

| | | | | | | |
|-----------|-----|----|----|---|------|-----------|
| <l7>PKPS | 250 | 30 | 12 | 2 | 23.0 | 4,140,000 |
| <l7>PCK | 450 | 30 | 12 | 2 | 23.0 | 7,452,000 |
| <l7>PULS | 150 | 30 | 12 | 2 | 23.0 | 2,484,000 |
| <l7>ZYCIE | 150 | 30 | 12 | 2 | 23.0 | 2,484,000 |

| | | | | | | |
|------------------------|-------|-----|----|---|------|------------|
| <l7>EGIDA | 150 | 30 | 12 | 2 | 23.0 | 2,484,000 |
| <l7>Pielegniarka | 50 | 30 | 12 | 2 | 23.0 | 828,000 |
| <l7>TOTAL | 1,200 | 180 | | | | 19,872,000 |
| <l7>Increase over 1994 | | | | | | 310,000 |

<t>To prepare for the briefing with the treasurer, the budget staff obtained actual reimbursement rates and demand counts for each provider from the social services department. This information is presented in the first section of the table (persons and rate) to provide an estimate of the 1994 actual demand and total expenditure for the activity (17,951,904 Zl). The second section (1995 Dept.) reproduces the department's 1995 request, which estimated the organizations would serve 1,200 people at an average reimbursement rate of 25,000 zloty/hour, for a total cost to the city budget of 21.6 billion Zl.

<t>The staff then developed two alternative table sections to disaggregate the department request into the two cost components: the demand and the reimbursement rates. These sections estimate the increases to the current budget for subaccount 8612 if demand or reimbursement rates were increased. The third section (1995 Rec. A.) estimates the cost of a decision to accept the department's 1995 demand estimate by applying the current reimbursement rates to the new demand estimates, for an additional cost to the city budget of 1,610,496 Zl. The last section of the table (1995 Rec. B.) presents the estimated cost of the program with a demand of 1,200 people at an average rate of 23,000/hour, which is a lower rate than that requested by the department; this option would add another 310,000 Zl to the budget.

<t>By disaggregating the department request into the two cost factors (demand for services and reimbursement rates), the mayor, city board, or city council could choose to accept the demand estimate but lower the reimbursement rate to contain cost increases. Accepting recommendations A and B would mean that the city would increase the budget for subaccount 8612 by 1,920,496 Zl instead of 3,648,096 Zl. At the end of the briefing, the treasurer also expected further analysis of the estimated average service time per client of 2 hours.

<ha>The Budget Document as a Financial Accountability Tool

<hb after ha>Program Budget Model

<t1>The annual budget is the principal source of comprehensive financial information about a city. A program budget presents the financial aspects of the budget in ways that enhance the budget's role as a program and management tool. Tables present multi-year changes in revenues and expenditures, and graphs show the functional allocations.

<t>A columnar format specifies program allocations for the previous year (actual) and current year (expected actual) and allocations proposed for the next budget year. After the council has approved the final budget, the approved amounts are substituted for the proposed amounts.

Tables and graphs throughout the budget make financial trends and changes in functional areas by organizational unit more transparent. Multi-year comparisons of expenditures and program and performance indicators (see Table 1) provide an important context for decisions about future program activities by indicating the rate of growth or decline in program areas and showing changes in program workload and productivity increases (or decreases). This information helps budget reviewers determine whether a program's budget request is reasonable or should be rejected. This works to the advantage of both the requesting department and the budget reviewers (be they the budget staff, city manager, or council member).

<t>The same principles apply to grant revenues received from the central government. These may be associated with a specific task, indicating the degree to which that task is supported by local and central government funds. The budget can be an important tool for showing how these fund sources have changed over time and the uses to which they have been dedicated.

<hb>Current Practice

<t1>Polish law requires local governments to use a single general fund for all appropriations. Yet local governments also receive various grants from the central government and user fees and other revenues from various local services. Municipal budgets usually keep the funds, even if for the same task, under the respective accounting heading rather than grouped according to task. The amount of local or grant funds in the budget proposal is seldom compared to current year expectations and previous year actual allocations. Many municipalities only present central government grant revenues in the summary tables. The subaccount detail in the city budget only shows local revenues and expenditures, excluding critically important information about the amount of funds the central government will contribute to a task through various grants.

<hb>Implementing Reform

<t1>The Krakow and Lublin budgets follow the excellent practice of itemizing costs for types of expenditures, such as personnel, commodities and services, capital outlay, and capital investments (as seen in Table 1). Aggregating expenditures into major expenditure types may help city council members understand the management dynamics of a particular program. A labor-intensive program (for example, schools) will be affected differently than a capital-intensive program (for example, sewage treatment) by inflation and other economic factors. Together, these features identify trends and provide a context for budget decisions.

<t>Table 1 also shows how Krakow's 1995 budget associates multiple funding sources with a single task. Task 1 of the school budget is funded by three subaccounts: 7911, 7961, and 9146. The table also shows how these different sources have changed over time.

<ha>The Budget Document as a Communications Tool

<hb after ha>Budget Format

<hc>Program Budget Model

<t1>A local government’s program budget provides financial transparency. A program budget tells citizens how their government is financed and which activities their revenues fund. A document that describes the city’s programs and activities, links expenditures with programs and tasks, and uses graphics to convey major financial allocations and trends will provide citizens with more than knowledge about the new budget plan. It will also give them a sense of what their government is doing—or not doing—and how much it costs. A person who reads the budget should be able to understand the financial status of the municipality without difficulty. The reader should also be able to see the entire scope of local self-government activities, including the “off-budget” enterprises and any subsidies these receive. Creditors (bond agencies) and other government officials also use this information when they evaluate the city for loans and grants.

<t>The summary for the total budget should include tables presenting multi-year changes in revenues and expenditures and graphs showing the functional allocations within the city budget. Pie graphs and other pictorial charts should lucidly display expenditures by program function and by expenditure type (such as personnel, supplies, aid to individuals, and capital). Such graphics can also be used to display revenues by program, by type of intergovernmental aid, and by tax or other revenue source.

<t>Presenting organizational and summary budget information for each department and enterprise provides a valuable context for specific decisions regarding a department’s or an enterprise’s proposed budget. The adopted budget should be presented with a clear summary of departmental activities and the changes made for the next budget year. It is also good practice to include a page of key economic and demographic information as the context within which the municipality must balance its revenues and expenditures.

<hc>Current Practice

<t1>The reform period in Poland has been one of extensive and intensive experimentation in:

<tb1>transferring powers from the central government to local self-governments—changing the thinking about the government and the role of governments in society;

<tb>reshaping the legal forms for city organizational units, including budgetary units and communal enterprises; and

<tb2>decentralizing administration within these units.

<t>The result is a very complex city structure. Citizens—and officials—may find it difficult to identify who is responsible for providing specific services. Municipal budgets commonly do not include summary budget information beyond introductory paragraphs describing how key revenues and overall expenditures have increased or decreased from the previous year. Graphs, organizational charts, and general demographic information are typically absent from the budget presentations.

<hc>Implementing Reform

<t1>Both Krakow and Lublin have begun to put more substantial summary information in their budget documents, including clear and concise narratives throughout the budget document. These narratives link expenditures to activities in terms that citizens understand.

<t>The Lublin and Krakow budgets also include an organizational chart of the city government structure, including enterprise units, to help citizens and creditors understand budget allocations and centers of accountability (mayor versus board of directors). Krakow and Lublin have also adopted the important practice of explaining the activities and financial costs of “off-budget” enterprises (such as MPK) that receive city budget subsidies.

<t>The budgets include graphs that quickly show readers the major divisions in the budget, including operations and capital investment (Figure 3). Krakow and Lublin have experimented with ways to present multiple funding sources for a given activity or program subaccount, both in subaccount narratives and summary tables.

<cf>Figure 3 1995 Krakow Summary Pie Graph

<ft>Expenditures for Operations and Investments

<ft>Operations 88%

<ft>Investment 12%

<t>Lublin and Krakow present other nonfinancial and nongovernmental information in the 1995 budget documents to provide a solid context for the subsequent budget decisions. Demographic data, commercial and other economic information (building progress, privatization events), and major governmental events of the previous year have impacts on the next budget year. Explicating these factors at the beginning of the budget process supports the initial program discussion by the council.

<hb>Capital Budget

<hc>Program Budget Model

<t1>Capital investment projects have a longer time frame than operating expenses and require extensive technical analysis. A road or landfill may require several years of planning and design; it may also require several years to construct. Funding the project requires multi-year budgeting. A separate capital budget adds substantial value to the operating budget when it includes a five-year rolling projection that forecasts future capital funding requirements. This capital improvement plan (CIP) puts decisions about current capital expenditures in a longer term perspective. The CIP is adjusted annually to indicate new priorities.

<t>Until a municipal credit market is established in Poland, cities will be forced to finance capital projects through the operating budget. When credit financing is available, such as for certain environmental projects, capital budgeting will show the impact of capital projects on the operating

budget. Will the landfill project increase garbage collection costs? Will it reduce other operating costs? How will it otherwise affect expenditures or revenues? These are important questions that require explanation in order for the budget to be an effective program and management tool.

Table 3 shows a sample multi-year capital budget for three projects. Note that the reader can see the total project cost for the five-year period, the total costs of all projects for the period, and the total costs of all projects for a given year. Just as important, the table shows the reader the projected impact on the operating budget of the projects in a given year. The operating impact varies over the period and must be re-estimated each year so that those costs can be incorporated into the planning for the next budget year.

Table 3. Sample Multi-year Capital Budget with Operating Impact

| PROJECT | 1995 | 1996 | 1997 | 1998 | 1999 | Project Totals |
|------------------|-----------|-----------|-----------|-----------|---------|----------------|
| A 1,000,000 | 600,000 | | 200,000 | | 0 | 1,800,000 |
| B 500,000 | 500,000 | | 500,000 | | 500,000 | 2,500,000 |
| C 100,000 | 250,000 | | 500,000 | | 600,000 | 1,650,000 |
| Total | 1,600,000 | 1,350,000 | 1,200,000 | 1,100,000 | 700,000 | 5,950,000 |
| Operating Impact | | | | | | |
| A 100,000 | 50,000 | | 100,000 | | | 250,000 |
| B 50,000 | 50,000 | | 100,000 | 100,000 | 50,000 | 350,000 |
| C 50,000 | 200,000 | | 300,000 | 200,000 | 300,000 | 1,050,000 |
| Total | 200,000 | 300,000 | 500,000 | 300,000 | 350,000 | 1,650,000 |

Current Practice

Capital investment consumes a large share of current revenues in many Polish cities. Other than a brief statement in the introductory paragraph, the typical municipal budget rarely separates capital investment expenditures in the subaccount tables.

Implementing Reform

<t1>Krakow and Lublin integrate capital investment expenditures with the program narratives for each subaccount. They then aggregate the capital budget in separate summary tables. Lublin and Krakow also indicate the financial sources for each project (e.g., central government, environmental fund, user fees, and city budget).

<hb>Budget Calendar

<hc>Program Budget Model

<t1>The program budget process portrayed in Figure 1 comes full circle when the council approves the budget plan and presents it to the citizens. When the process begins again for the next budget, the citizens will be better informed about their local government and better able to express their views and budget requests. If citizens are informed about their local government's activities and they are given opportunities to express their opinions on the budget proposal as it is developed, the municipal leaders can benefit from their constituents' perspectives as they make their budget decisions. Learning about these perspectives and accounting for them early in the process increases citizen acceptance of the subsequent budget decisions.

<t>The program budget model requires more time to develop than a budget that is used primarily as an accounting device because it expands the uses of the budgeting process and involves more intense scrutiny of budget requests. It also uses more information, which must be produced and analyzed at different stages of the process. A budget process that sets task priorities and effectively communicates them throughout the city organization requires budget actors to take enough time at each stage of the process to be effective.

<t>Figure 4 presents the program budget process in the form of a sample budget calendar. The calendar emphasizes that the budget process is iterative in important respects. For example, the budget staff issues the budget instructions based on an initial forecast of revenues and expenditure demands. The forecast is revised in the subsequent six months as new information becomes available. The budget assumptions are adjusted unilaterally by the treasurer to modify the department requests as the proposed budget is prepared for the mayor and city board. The final forecast will be available for the city council to make any further assumption adjustments.

<cf>Figure 4. Sample Budget Calendar

<sha>For Medium to Large City. Adoption by December 31.

<st1>**July 15** Budget office makes first estimates of revenues, inflation, central grants, subsidies, and tax rate maximums.

<st1>**July 20** Council holds public hearing for citizen input, especially on capital budget.

<st1>**August 1** Council passes resolution on budget policies and priorities.

<st1>**August 15** Budget office distributes budget instructions and forms to departments; provides departments with uniform assumptions as basis for their budget requests.

<st1>**September 15** Departments submit budget requests to budget office for review and analysis. [Discussions with departments—revision of requests.]

<st1>**October 10** Budget office revises estimates of revenues, inflation, central grants, subsidies, and tax rate maximums.

<st1>**October** Mayor reviews budget office recommendations with treasurer and budget staff.

<st1>**November 1-5** Department appeals, final city board decisions made. Board's recommended budget printed and distributed to public, press, and council.

<st1>**November 15** Council budget commission holds public hearing on city board's proposal, begins review of board's proposal.

<st1>**December 1** Final budget office revision of estimates of revenues, inflation, central grants, subsidies, and tax rate maximums.

<st1>**December 10-15** Adopt budget. Set property tax rates, rents, user fees (for trams, water, sewer, garbage collection, etc.).

<st1>**March 31 (Next Year)** Adjust budget based on final central government factors.

<t>The sample calendar allocates more time than is typical for budget development at the beginning of the process (July-September) and for budget staff analysis (October). The time allocated for council deliberation is not expanded beyond the current practice for several reasons. First, when the recommended budget plan reaches the council, there should be few changes to the proposal if:

<tb1>the city council is also given a preliminary financial forecast as a context for its decisions,

<tb>the city council seeks citizen input and establishes budget policies and priorities accordingly at the beginning of the process,

<tb>the budget office gives departments clear directives and enforces them in reviewing the budget requests, and

<tb2>the city board understands city council intentions and uses the "sense of the city council" to make decisions about funding requests within city council program guidelines.

<t>Furthermore, council debate can be focused on the key decisions if the council is presented with the information in the formats described in this monograph, including clear narratives; multi-

year tables of revenues, expenditures, and performance measures; and clearly delineated decisions. Much of the debate over the “correct” assumptions and calculations of increases and decreases can be avoided.

<hc>Current Practice

<t1>The typical municipal budget process begins in October when the mayor meets with department directors to discuss budget preparation. The treasurer and staff are given a few weeks in November to check the calculations in the budget requests, and then the mayor and city board, meeting with department directors, make a series of decisions that lead to a budget proposal that is submitted to the city council.

<t>The city council often spends substantial time debating whether a particular program should have been increased by the amount suggested by the city board in the budget proposal. The problem is that the council is essentially debating priorities but in the context of recommendations already made by the city board. The conflict can be protracted and the debate rancorous, especially concerning interpretations of economic information and assumptions underlying particular department requests. The final budget plan is often a reflection of the city board’s priorities, which may be dissimilar to those of the council. Compromises can be made difficult by the press of time and degree of conflict surrounding budget debate.

<hc>Implementing Reform

<t1>Krakow and Lublin have substantially revised their budget calendars to reflect the increased time required for program budget development and analysis. Perhaps the most significant step taken was to begin the process with a council meeting to decide budget policies and priorities. For example, the 1994 Krakow budget process began with a decision by the council to increase infrastructure spending by decreasing operational expenses. The council’s early policy input was a major change in the process and extremely important because it established agreed-upon guidelines for the subsequent development of budget instructions to city departments and enterprises.

<t>In Lublin, the budget staff appreciates the longer time allocated for analysis of department requests. Collecting supplemental information for specific budget issues; creating computer worksheets to analyze complicated cost scenarios; and developing well-reasoned budget recommendations to the treasurer, mayor, and city board require more time than simply checking department requests for mathematical accuracy.

<t>In both cities, the councils have been able to reduce the amount of time they spend debating the budget proposals received from the executive boards because they can focus on whether the proposals conform to the priorities they established at the beginning of the process. Both councils have also praised the mayor and budget staff for increasing the transparency of the budget and illuminating the consequences of their budget alternatives.

<ha>Conclusion

<t1>Public budgeting serves many purposes. As the principal program and planning tool for governments, budget development can force the mayor and council to discuss task priorities and evaluate the programs designed to implement them. As the main management tool of the city's executive board and department directors, budget development can identify the activities of city bureaus and enterprises and allocate funds for those activities in ways that increase program effectiveness. As the principal financial control tool, the budget can hold city officials accountable for spending only what is allowed by the budget. As an important communications tool, the budget is essential for local democracy, conveying to citizens in a single document the scope and work of government activities.

<t>The Program Budget Model presented in this monograph is only one of the ways to implement a budget process that yields a budget document serving these multiple purposes. This monograph is meant to serve as a guide for other municipalities that are seeking to transform their budget into a powerful program and management tool. The experiences of Lublin and Krakow provide firm evidence that the transformation is possible and yields substantial benefits.

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